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Approved By:

Jonathan Gressel

Prepared By:

Salah Mansour

Report Highlights:

Marketing of the 2011/12 cotton crop has been slowed by low export demand, a lack of liquidity among traders and farmers' high price expectations relative to actual market conditions. Cotton planted area is up 40 percent and production is up 37 percent over last year. However, ALCOTEXA reports cotton export sales of only 6,854 tons this season (till October 15, 2011) versus 110,000 tons last year. Financing of the Government of Egypt budget deficit is soaking up liquid funds and driving up interest rates. Farmers are looking for the high prices they received last season, but traders expect prices to drop further. In this situation, banks are also unwilling to finance the purchase of seed cotton from farmers. Suggestions are being made about potential solutions to the current marketing problems, some of which would be contrary to Egypt's WTO obligations.

General Information:

At the beginning of the cotton season (2011/12) the Ministry of Agriculture promised farmers a profitable price, which motivated them to grow cotton on 525,480 feddan (221 Thousand Hectares) compared to 374,845 feddans (157 TH) in the last year (2010/11). This year the local traders offer to purchase the local cotton at prices that are 40-50% lower than last year, which has made farmers stop selling their production while waiting for an increase in the offered prices or for government intervention in the market.

Egypt produces three varieties of cotton: Extra Long staple- Giza 88 (comparable to pima cotton): It is cultivated in Northern parts of the country and represents 20% of total Egypt's production. The second variety is the Long staple -Giza 86 (comparable to Upland cotton): it is cultivated in Delta area and represents 65% of production. The third one is the short and medium staple varieties- Giza 80 and 90, which is cultivated in Upper Egypt and represents (15% of production).

Total production of lint cotton in 2011/12 is expected to be 3.611 million qintars (180 TMT or 745 thousand bales), in which 350,000 qintars (17 TMT or 72 TB) is short and medium staple varieties. Last year's crop was estimated at 2.637 million qintars (132 TMT or 544 TB), while the exports were 2.215 million qintars (111,000 MT or 457 TB). NOTE: (1 qintar = 99.048 lbs), (1 bale = 480 lbs).

Cotton growers had incurred large seasonal expenses due to higher rent costs, worker wages and high prices of fertilizers, at the same time that the prices in the current season are half of last year prices. According to the farmers, the cost of growing one hectare of cotton, including laborer wages, land cultivation, pesticides, fertilizers etc. amounted to LE17,136. Average production is 16 to 17 qintar/hectare. (LE 5.98 = \$1.00).

In general, prices of LS cotton varieties is higher than short and medium staple varieties by 15-17%, while prices of ELS varieties are higher than short and medium staple local or imported varieties by 25-30%. Prices of ELS cotton last season (2010/11) were about LE 1,800 -2,000/qintar. The government indicative prices for this year (2011/12) are: LE 1300/qintar for ELS seed cotton, LE 1,200 for LS seed cotton (about 160 cent/lb), which is higher than world price (148 cent/lb), and LE 1,100/qintar of seed cotton (145 cent/lb) for short and medium varieties. As the GOE no longer purchases cotton, the indicative prices have no real market impact, but do leave farmers, who expect to receive the indicative price, very unhappy.

Farmers are still storing their production at their own facilities due to poor prices and are hoping that the GOE will develop a marketing policy to assist them. In Upper Egypt, cotton was harvested a month ago, while in Lower Egypt the harvest is still in full swing.

Total consumption of local spinners of cotton last year (2010/11) was about 89,000 ton, in which 53% were imported and 46% were local cotton). Last year, the government has subsidized farmers with LE 200/qintar. The year before (2009/10) the percentage was 65% for imported cotton against 35% for local cotton (there was no subsidy in this year). Farmers ask for subsidy this year, but it seems that the government will not respond to their demand. Experts say that if the government wants to subsidize cotton, it should subsidize farmer's price, not the spinning mills.

Egypt has imported 1,500 tons recently from Greece at 105 cent /lb. Currently there are offers from India to sell cotton to Egypt at 115 cent/lb CIF Egyptian ports.

The cotton crisis has escalated especially with the rejection of the commercial banks to finance the local trading

companies to purchase the local cotton because they expect that the international prices will decrease. The “General Committee for Cotton Internal Trade” has submitted four scenarios to end the rigid situation in cotton markets resulted from the liquidity shortage including:

- Banning the importation of cotton for a certain period of time till the cotton stock is over.
- Paying a subsidy to the local lint and textile companies in order for them to operate at full capacity.
- Impose import duties on the imported lint equivalent to the difference between the local and imported lint prices.
- Enhance the commercial banks to finance cotton crop

The main Egyptian commercial governmental banks refused to finance the purchase of the locally produced cotton this year. There are 230 private and business sector companies stand ready to purchase the cotton. There is not enough liquidity to purchase the cotton this year. The GOE has been financing the sizeable budget deficit with local Treasury bond issues, soaking up liquidity and driving up interest rates. The GOE is currently paying 14% interest.

Banks need guarantees from the local traders and the exporters that cover at least 25% of the finance and they are not sure that local mills will be able to purchase large quantities of cotton from the local traders as well as they are not sure that the exporters will be able to sell large quantities given the considerable difference between local prices and the international prices this year.

The Ministry of Agriculture is trying to convince Principal Bank for Development and Agricultural Credit Bank “PBDAC” to finance the purchase of the crop, but the bank is hesitant to do so. The estimated amount needed to finance cotton this year is LE 2.5-3 billion. Some experts say that the government should cover the price difference and it would be tragic if peasants stopped growing cotton just because other produce might yield higher profits.